

# CASE STUDY

2017



## Social and inclusive housing in the Huetar North region of Costa Rica



*Case study of the pilot project “Social and inclusive housing in the Huetar North region of Costa Rica” carried out by the Union and Development of Peasant Communities Foundation (FUNDECOCA), an institution affiliated to the Costa Rican network of microfinance institutions REDCOM, within the framework of the regional project program of the Central American and Caribbean Network of Microfinance (REDCAMIF) and ADA Luxembourg, aiming at the promotion of financial inclusion by means of innovation in the financial product implementation.*



## 1. INTRODUCTION

ADA Luxembourg ([www.ada-microfinance.org](http://www.ada-microfinance.org)) in alliance with the Central American and Caribbean Network of Microfinance (REDCAMIF), developed a five year project to accelerate financial inclusion in the Central American region and the Dominican Republic through three specific work areas: i) Professionalization of the industry, II) Sustainability of the national networks and the development of services, and the; III) Development of inclusive and innovating financial products, incorporating the implementation of innovative financial products in the areas of rural finances and progressive social housing in 33 affiliated Microfinance Institutions, distributed evenly among the 7 countries.

In the case of Rural Finance, the ADA - REDCAMIF alliance allowed for the development of four financial products for the rural sector additionally offering “positive externalities for the environment”. The products that were developed are: i) Line of credit for environmental productivity; II) Financing for renewable energies; III) Rural financial leasing and; IV) Financing for rural enterprising women. In the case of progressive social housing it was sought to expand financial services addressing the improvement in the quality of life of families. This VSB program has identified seven products that have the peculiarity of being progressive in the sense that they offer investment options starting from basic repair activities, improvements and construction, up to more complex schemes of house construction. The identified products are: I) Progressive improvement of houses; II) Whole improvement of houses; III) Purchase of land and legalization; IV) House construction; V) House purchasing; VI) Credit for the introduction of communitarian services in rural areas and; VII) Programed savings for housing.

## 2. INITIAL CONTEXT

Costa Rica has a good coverage of financial services for housing purposes from existing regulated organizations, nevertheless the great majority of these organizations do not help low income families to solve their housing needs.

For low income people lacking the economic resources to build proper houses, their only option is to improve their houses little by little, under the pressure of a growing family and the need to have access to minimal living conditions.

The influence zone of FUNDECOCA benefits from an important State support that supplies basic housing through a Housing Bond, which is the starting point for the success of CREDIHOGAR given that the product is a complement to this State subsidy, allowing families to not only receive the Bond as a housing solution, but allowing for further improvements in the

house and thus solving their need to do so.

Given the former, FUNDECOCA tackled this problem area through the financing of houses by means of step-by-step improvements. Nevertheless, it was only after the piloting of this project that a full-fledged product was developed for its clients.

The Institution already has a large geographical territory so it did not seek its expansion but rather to deepen its credit offering by no longer limiting itself to the financing of production but widening its scope to different ends, related to the improvement and purchasing of houses.

In addition to the factors previously mentioned, the last incursion of FUNDECOCA into a project to finance housing, before this pilot, allowed it to successfully outline the CrediHogar product. Inside the organization there is the realization of the need to serve unmet demands from the communities.

## 3. DESCRIPTION OF THE PROJECT IMPLEMENTATION WITHIN THE MFI

The project was called Social Inclusive Housing in North Huetar Region of Costa Rica and the pilot project was developed in 10 community credit committees (CCC) in the districts of Pital, Aguas Zarcas and la Palmera with a goal of 120 loans and a total amount of \$200,000.

The house financing product, called CREDIHOGAR, was segmented into 4 specific needs families have to finance a) the purchase of a land plot, b) the land plot split up c) fee expenses to obtain the Housing Bond, and d) improve the house obtained through the Housing Bond; throughout the whole process they can count on the support of an adviser specialized in construction techniques who provides a technical guidance incorporating the best construction practices.

A housing credit promoter was included in the pilot to ensure its successful implementation, in order to support the community credit committees during the pilot period thus allowing for the product and its processes to be instilled in the CCC personnel while acting at the same time as a direct credit promoter. This ended up adding an element of innovation given that the Institution only promotes loans through the CCC personnel, so this became an element of differentiation that revived credit promotion within the pilot committees.

FUNDECOCA signed an agreement with a supplier of Construction Technical Assistance (ATC) which was the starting point for the development of a specialized service responding to the needs and requirements of FUNDECOCA's customers. This ATC appointed a professional who would call on customers to assess and offer the necessary technical advice ensuring that the construction would include all basic requirements to guarantee its quality and durability. In addition, there was the development of fact sheets containing tasks of minor construction complexity such as painting, laying of ceramic tiles and the like, that are handed to the clients as a best practice guides for construction so they consider the use of some key elements when building something.

An agreement was also signed with Almacenes El Colono (a hardware store) which would offer discounts to FUNDECOCA's clients, as well as free transportation with the purchase of construction material, which is a key added value as an incentive for loans.

This increased housing credit activity amounted to a portfolio of USD 215,443, 107% of the established goal of USD 200,000, and 132 CREDIHOGAR solutions being granted thus achieving 110% of the client goal. This impacted on the improvement of living conditions as measured by the quality and conditions of houses inhabited by financed clients.

#### 4. MAIN CHANGES IN THE MFI SINCE THE PROJECT IMPLEMENTATION

The institution improved its computer system and included new modules for the management of housing portfolio data, allowing for the independent monitoring and control of its portfolio. This allowed them to achieve a higher level of IT specialization which in turn translates into better managerial decision by having access to the whole, as well as individualized, information pertaining to Credihogar.

Additionally, a tool for the analysis of payment capacity was included into the credit analysis of the CCC, because as housing credit does not have a productive purpose it needs the use of some new variables to help enrich the credit analysis. Currently this tool is being used by all of the credit committees and not just those who participated in the pilot.

After the implementation of the pilot, the new credit was formally integrated into the Institution's permanent credit offering in the credit committees, and also in the remaining 56 committees who have positively perceived its benefits and its impact on the communities, as well as its market potential

Technical assistance was taken over by FUNDECOCA thanks to the knowledge acquired during this period through the housing promoter who also received training in building techniques.

As of now, the Institution has managed to integrate a greater number of clients into the agreement signed with Almacenes el Colono and has succeeded in attracting foremen working in the influence zone to the National Apprenticeship Institute training programs, to have their knowledge reinforced thus reducing risk in all financed constructions.

#### 5. FACTORS CONTRIBUTING TO THE SUCCESSFUL IMPLEMENTATION OF THE PROJECT

- Institutional commitment: the institution kept up the commitment of the whole organizational structure with the project thus allowing it to achieve the objectives due to its involvement degree. The Board of Directors identified the market opportunity for the Institution as well as its impact on FUNDECOCA's target population. It has been very important that the involvement with the project has translated into efforts to innovate and dispel myths and obstacles to implement new credit products.

- Promotion and marketing: the institution developed a promotional plan never before undertaken for any of its credit products; it involved the development of a logo and a brand for the specialized credit and the adoption of some very targeted direct promotion activities.



Photo taken from "Building new foundations in housing microfinance, European Dialogue No.12, European Microfinance Platform, April 2018"

- The inclusion of the personnel and the JDCCCs in the design of the product was a success factor given that their involvement generated a degree of commitment with the project that smoothed the way and allowed to overcome the obstacles with the required commitment generating, besides, a sense of ownership with the project. The focus groups were a design tool for the product, generating a very positive impact in the JDCCCs and allowing them to contribute inputs related to the needs perceived in their communities.

- The complementary product alliances added value to it. The alliance with Almacenes el Colono, as well as that with the supplier of ATC services, had a direct impact on clients as they perceived them as a support and a guide in the building process.

- The ATC was a cooperation agreement between the Technological Institute of Costa Rica and REDCOM that ensured access to specialized technical personnel who designed the ATC service to serve the Institution's clientele. The backing of this agreement was key to the acceptance of the ATC by clients, given that the service received high level state and technical support.

- The regional technical support offered by REDCAMIF through Lic. Luis Echarte for the design, negotiation and technical consulting for the implementation of the ATC service was key to its design and successful implementation as a value added to the credit granted by FUNDECOCA.

## 6. OBSTACLES ENCOUNTERED DURING THE IMPLEMENTATION OF THE PROJECT

Obtaining specialized funding for housing, with reasonable interest rates and compatible with the kind of guarantees that the Institution uses, was one of the main obstacles. The interest rates being offered for housing purposes in the national market is associated with real guaranties, something impossible for CRE-DIHOGAR because of the costs involved with the registration of a mortgage in relation to the low loan amounts offered.

The non-acceptance of the ATC by some clients was an obstacle because some of them considered that they did not require any technical support, plus the fact that the ATC service was not free.



Photo taken from "Building new foundations in housing microfinance, European Dialogue No.12, European Microfinance Platform, April 2018"

## 7. ROLE OF THE NATIONAL NETWORK AND REDCAMIF

The role of the national network in the implementation of the pilot was key to its success because it was a link between service suppliers and the Institution, seeking the best use of the Institution's resources, and always steering the focus right on the expected results and their valuation.

The backing and counsel from the executive office and the role of the SFI coordinator were key for the Institution to have guidance about the activities, the budgetary control, follow up of the goals, as well as the corrective measures to achieve them.

The guide contributed by REDCAMIF to the outline of the project as well as the steady counseling by the regional technical services from ATC were key to the institution's achievement of the expected results.

## 8. RECOMMENDATIONS FOR OTHER ACTORS WISHING TO REPLICATE THIS SUCCESS STORY

The Board of Directors, the directors and the management team must be totally committed with the project, given that total involvement is required by the development of innovations so as to avoid bottlenecks in decision making.

The involvements of the whole of the institution's personnel is vital for the development of all processes so that they be the main source of inputs for the development of the product, given that they are the credit operators, plus the fact that it generates a direct commitment with it and a high degree of ownership of the project.

There should be awareness about the fact that new credit products entail new processes, the use of tools or more steps in the execution of the credit; this is why it is important to work on this matter with the personnel in order to avoid apathy in the adoption of the new procedures, and the generation of bottlenecks when granting credits.

The institution must work on a management by objectives internal culture including regular reviews of project developments, its results, problems and possible solutions; all of it to be included in the weekly work agenda, given that only by very close follow up and monitoring, and by embedding this into the institutional culture, can objectives be reached.

## Thank you to those who participated in this case study:



Since 1994, ADA has been working hard to develop the provision of microfinance to populations excluded from the conventional banking circuits. Its action is designed to reinforce both the autonomy and capacities of microfinance institutions (MFIs), professional associations and networks. ADA also assists governments in their efforts to support and structure the microfinance sector at the regional and national level.

With this aim in mind, ADA can propose and develop specific and innovative microfinance products which have a positive impact on the life of thousands of people, to organise education and training for microfinance professionals working in, and on behalf of, the South, as well as provide advice and support to MFIs in their search for funding. Furthermore, ADA has taken the decision to be involved in research with a view to anticipating the future needs of the world of microfinance and to gauge the social impact of its actions. Its flexible approach enables it to adapt each project according to the needs of our partners and the realities in the field.

ADA enjoys the High Patronage of HRH the Grand Duchess of Luxembourg.

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REDCAMIF is a private, non-profit, apolitical, non-religious entity composed of associations and institutions specialized in microfinance in the Central American and Caribbean Isthmus. As a network, REDCAMIF seeks to strengthen the microfinance industry in the region through union representation, institutional strengthening, network sustainability and the generation of strategic alliances, with qualified and ethically committed human resources, in order to contribute, through its programmes, to improving the quality of life of low-income families.

REDCAMIF brings together the national networks of seven countries (Guatemala, Honduras, Dominican Republic, El Salvador, Nicaragua, Costa Rica and Panama) which, at the end of 2017, had 141 MFIs serving more than 1.8 million micro-entrepreneurs, 59% of them women.

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REDCOM is an institution that brings together and represents microfinance institutions in Costa Rica, so that Costa Rican micro and small enterprises feel supported. It brings together 21 microfinance institutions, all of which focus on financing micro and small enterprises.

Its objective is to lead and develop the microfinance sector in Costa Rica through the strengthening, integration and representation of its partner organizations. It also aims to be a network for consultation, information and strengthening of the microfinance sector in Costa Rica.

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The Union and Development of Peasant Communities Foundation (FUNDECOCA) is a non-governmental and non-profit development organization that contributes to improving the standard of living of the inhabitants of the communities in which the community credit committees operate. It was established in August 1993 by 14 community development associations, representing an equal number of community credit committees operating since 1990 in the North Huetar region of Costa Rica.

Currently, the organization is composed of 66 community credit committees, covering 221 rural communities in the Huetar Norte and Sarapiquí regions. It has a central office located in Ciudad Quesada and offices in the Community Credit Committees, where about 500 people volunteer on operational credit functions.

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